

For the month of July, the Sprott 2014-II Flow Through LP returned 8.0%, bringing the fund's YTD and 1-year returns to 90.7% and 69.1%, respectively.

Premier Gold was the largest contributor to performance. Premier is a large portfolio weighting and the stock performed well following the announcement of Mercedes mine acquisition. Birchcliff Energy was the second largest contributor. Birchcliff's acquisition of Encana's Gordondale asset package was well applauded by investors.

In anticipation of the September 30, 2016 rollover, the portfolio's cash weighting has been increased to 21+%. Energy equities and precious metal equities comprised 38% and 30%, respectively, of the portfolio at month end.

Towards the end of June/beginning of July, we observed a cautious shift in the global energy markets as supply disruptions normalized and refined products began to build. At the same time US drilling activity continued to recover, with the Baker Hughes oil rig count now up approximately 18% from the May 27th lows and US crude production increasing for 4 weeks in a row according to the DOE. This culminated in a sharp 20% pullback in crude oil, causing some to question the durability and sustainability of the rally off February lows. While we remain cognizant of the H2/2016 recovery case for energy, we nonetheless have reduced our exposure to oil beta and instead focused our energy exposures on natural gas, where we expect a normalization of gas demand and storage levels will lead to higher prices for the commodity in the coming months.

On the materials side, we observed a consolidation in the price of gold and related precious metals as the initial spike off Brexit fears abated. However, we still believe the long-term investment case for gold remains solid, as policymakers around the world continue to tinker with their fiscal and monetary policies in order to revive moribund economic growth.

SPROTT 2014-II FLOW-THROUGH LIMITED PARTNERSHIP

July 2016 Commentary



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